

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 NEA-10 ISO-00 AGR-05 AID-05 CEA-01

CIAE-00 COME-00 FRB-03 INR-07 NSAE-00 CIEP-01 SP-02

STR-04 TRSE-00 LAB-04 SIL-01 SAM-01 OMB-01 ABF-01 L-03

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P R 090330Z JUL 76

FM AMEMBASSY COLOMBO

TO SECSTATE WASHDC PRIORITY 2508

USMISSION EC BRUSSELS PRIORITY

INFO AMEMBASSY NEW DELHI

AMEMBASSY PARIS

LIMITED OFFICIAL USE COLOMBO 2442

DEPARTMENT PASS USDA FOR TITLE I COORDINATORY NORTON: NEW DELHI
FOR AGATT

E.O. 11652:N/A

TAGFC EAGR, ETRD, EAID, EEC, CE

SUBJECT: FOOD AID TO SRI LANKA

REF: A) EC BRUSSELS 0657 (NOTAL), B) STATE 165992 (NOTAL), C)
COLOMBO 2246 (NOTAL)

1. SUMMARY: EMBASSY STRONGLY CONCURS WITH DEPARTMENT'S
SUGGESTION THAT FRENCH USE UMR OF 100,000 MT OR 150,000 MT
WHEAT FLOUR. SEVERE DROUGHT REDUCING RICE PRODUCTION WHICH
IS FORCING GSL TO IMPORT MORE RICE AND FLOUR TO MAINTAIN
NUTRITIONAL LEVELS. COST OF INCREASED IMPORTS WILL ADVERSELY
AFFECT ALREADY DIFFICULT BALANCE OF PAYMENTS SITUATION. GSL
NEEDS ADDITIONAL WHEAT FLOUR IMPORTS ON EASIEST POSSIBLE
TERMS. END SUMMARY.

2. EMBASSY STRONGLY CONCURS WITH DEPARTMENT'S SUGGESTION
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(REFTEL B) THAT UMR OF 100,000 MT WHEAT FLOUR BE USED IF

FRENCH FLOUR PROVIDED IN JULY OR 150,000 MT IF NEW, ANNUAL UMR TO BE ESTABLISHED.

3. ASSUMING 250,000 MT UMR PROPOSED BY FRENCH IS FLOUR, JUMP FROM 100,000 MT IN USE BY US AND CANADA WOULD BE VIEWED BY GSL AS VERY ADVERSE MOVE GIVEN WORSENING DROUGHT AND BALANCE OF PAYMENTS (BOP) SITUATION. EVEN IF PROPOSED UMR IS WHEAT GRAIN EQUIVALENT (187,500 MT OF FLOUR AT 1.33 EXTRACTION RATE), THIS WOULD STILL BE SUBSTANTIAL INCREASE CONSIDERING PRESENT SITUATION.

4. FOLLOWING LAST YEAR'S SERIOUS DROUGHT, RAIN FALL IN THE FIRST SIX MONTHS OF 1976 HAS BEEN THE LOWEST IN 66 YEARS. THE SOUTHWEST MONSOON, WHICH NORMALLY RUNS FROM MAY TO MID-SEPTEMBER, HAS STILL NOT BEGUN. RIVERS AND RESERVOIRS ARE DRYING UP. THE FLOW OF THE MAHAWELI RIVER, WHOSE DIVERSION WAS INTENDED GREATLY TO EXPAND IRRIGATED AREAS, HAS DROPPED FROM A NORMAL 10,000 CUBIC FEET PER SECOND TO A MERE 300 CFPS. THE GSL IS WORRIED THAT HYDROELECTRIC PRODUCTION MAY BECOME INADEQUATE TO FEED THE NATIONAL GRID, AND POWER RESTRICTIONS MAY HAVE TO BE IMPOSED IF CONDITIONS DO NOT IMPROVE. IF THE INTER-MONSOONAL RAINS DUE IN OCTOBER ARE BELOW NORMAL, THE PRESENT SERIOUS WATER SHORTAGE WILL BECOME CRITICAL.

5. AS A RESULT OF THE DROUGHT, THE SMALL RICE CROP (YALA) TO BE HARVESTED IN AUGUST-SEPTEMBER MAY PRODUCE 8 MN BU OR LESS (COMPARED WITTD20.8 MN BU IN 1975). THE FOWNWARD TREND IN OPEN MARKET PRICES FOLLOWING THE OCTOBER 1975 REMOVAL OF RESTRICTIONS ON PRIVATE MARKETING AND TRANSPORT OF PADDY AND RICE HAS NOW REVERSED. IN THE PAST FEW WEEKS OPEN MARKET RETAIL PRICE OF RICE HAS RISEN FROM ABOUT RS. 1.30 TO RS. 1.70 PER POUND (SUBSIDIZED WEEKLY ONE POUND RATION STILL BEING SOLD AT RS. 1.00.)

6. SINCE THERE IS SOME SUBSTITUTION BETWEEN RICE AND WHEAT FLOUR OR BREAD IN CEYLONESE DIET, GSL HAS TRIED TO PREVENT FURTHER DECLINE IN NUTRITIONAL LEVELS AND TO EASE INFLATIONARY

IMPACT OF HIGHER RICE PRICES BY CUTTING THE COST OF LIMITED OFFICIAL USE

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FLOUR AND BREAD. EFFECTIVE ULY 8 1976, THE OFFICIAL RETAIL PRICE OF WHEAT FLOUR WAS REDUCTED FROM RS. 1.10 TO RS. 0.86 PER POUND AND BREAD PRICES WERE LOWERED FROM RS. 0.99 TO RS. 0.80 PER POUND.ACCORDING TO FOOD COMMISSIONER (FC), GSL HAS ABOUT 50,000 MT OF FLOUR ON HAND WITH ANOTHER 5,000 MT ENROUTE. THIS TOTALS ABOUT SIX WEEKS SUPPLY AT THE OLD PRICE. FC NOT SURE HOW MUCH NEW PRICE DIFFERENTIAL BETWEEN RICE AND FLOUR/BREAD WILL STIMULATE

FLOUR CONSUMPTION BUT THINKS PRESENT SUPPLY GOOD FOR AT LEAST
FOUR OR FIVE WEEKS. GSL NOW LOOKING FOR ADDITIONAL WHEAT
AND FLOUR SUPPLIES ON EASIEST TERMS.

7. MOST RECENT GSL ESTIMATES PLACE UNFINANCED FOREIGN
EXCHANGE GAP AT ABOUT \$80 MILLION (REFTEL C). THIS ESTIMATE
HAS BEEN INCREASED FROM \$50 MILLION GAP PROJECTED AT FIRST
OF THE YEAR AS DROUGHT CONDITIONS HAVE WORSENERED AND FOOD IMPORTS
INCREASED. GS LIWOW IN PROCESS OF AGAIN REVISING BOP ESTIMATES.
AS UNPREDICTABLE
WEATHER IS CRITICAL FACTOR FOR BOTH IMPORTS AND EXPORTS,
EXTERNAL RESOURCES DIRECTOR SAID LOCAL ASTROLOGERS COULD
PROBABLY MAKE MORE RELIABLE BOP ESTIMATES THAN HIS OFFICE.

8. REGARDING WHEAT IMPORT FIGURES PROVIDED IN REFTEL A,
NON-COMMERCIAL IMPORTS DURING 1974/75 APPEAR MUCH TOO HIGH,
EVEN ON WHEAT EQUIVALENT BASIS. ACCORDING TO DATA
AVAILABLE HERE, CONCESSIONAL IMPORTS ON WHEAT EQUIVALENCE
BASIS (USING EXTRACTION RATE OF 1.33) WERE ABOUT 90 MT IN
CY 1974 AND 250 MT IN CY 1975. THE 1974/75 FIGURE OF
772,990 MT SHOWN REFTEL A IS FAR MORE THAN TOTAL COMMERCIAL
AND NON-COMMERCIAL
IMPORTS IN ANY YEAR.

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